



US ARMY NAF EMPLOYEE BENEFITS PROGRAM



NAF BENEFITS UPDATE

April 2004

NAF 401(k) SAVINGS PLAN MAXIMUM DEFERRALS

You may defer any percentage of your salary for investment in your 401(k) Plan account up to 100%, minus any mandatory withholding, such as for Social Security and Medicare. However, the IRS restricts the total dollar amount you may defer within any tax year.

MAXIMUM DEFERRAL LIMITS

For calendar year 2004, the IRS maximum dollar limitation on employee contributions for employees under the age of 50 is \$13,000. This limit will increase by \$1,000 each year until it reaches \$15,000 in the year 2006. Employees who are 50 years of age may contribute an additional \$3,000 in 2004 for a total of \$16,000 during the calendar year. The over 50 catch-up contributions will increase by \$1,000 each year to a maximum of \$5,000 in the year 2006, so that employees who are 50 years of age or older will be able to contribute a total of \$20,000 in the year 2006 on a tax deferred basis.

HOW TO CALCULATE YOUR MAXIMUM DEFERRAL PERCENTAGE

It is to the employee's advantage to spread their contributions over the 26 or 27 pay periods in the year to achieve the maximum contribution at the end of the year. If you attain the maximum prior to the end of the year, contributions will automatically stop, as will the employer match for the remainder of the year. To maximize your investment, divide your deferral limit (\$13,000 for under 50; \$16,000 for 50 and over in 2004) by your annual salary and round down to the nearest whole percent. You should attempt to anticipate any cost of living increase or performance award. About mid-year, it would be wise to review your calculation and make any necessary adjustment to your contribution percentage, based on remaining salary, remaining pay periods, and the amount of the contribution limit still remaining.

Here's how the calculation works. Subtract your year to date employee contributions to your 401(k) Plan from your maximum deferral limit. This will give you the amount in dollars you may contribute during the remainder of the year. Divide that dollar amount by the number of pay periods remaining in the year. (Although this varies with your pay cycle, remember that your first pay period in calendar year 2004 began some time in December 2003 and your last pay period in the calendar year will end some time in December 2004. Do not use 1 January 2004 to 31 December 2004 to determine pay periods. The IRS calculates income based on actual date of receipt of your paycheck.) Once you determine how much in dollars you can contribute each pay period for the remainder of the year, divide this amount by your gross pay per pay period. This will give you the percentage of your salary you may defer to maximize your 401(k) contributions for calendar year 2004. You should round this number down to the nearest whole percent, so you don't exceed the maximum dollar limit and lose some of your employer match at the end of the year. To get as close to the maximum deferral limit as possible, you may want to do this calculation again as we approach the last couple pay periods for calendar year 2004.

HOW TO CHANGE YOUR CONTRIBUTION PERCENTAGE

Just visit your servicing NAF Human Resources Office and complete DA Form 7426 to change your deferral rate.

**FOR DETAILED INFORMATION ON ALL YOUR NAF EMPLOYEE BENEFITS, LOG
ON TO OUR WEB SITE AT WWW.NAFBENEFITS.COM.**